

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Arenac County Road Commission	County Arenac
Fiscal Year End December 31, 2006	Opinion Date April 27, 2007	Date Audit Report Submitted to State May 25, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

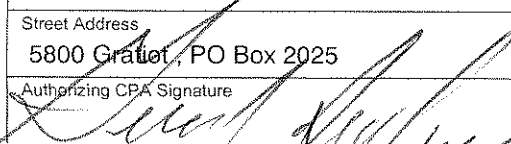
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989)799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA	Zip 48605
		License Number 1101007126	

**Arenac County Road Commission**  
(A Component Unit of Arenac County)

Omer, Michigan

**Financial Statements**

**For the Year Ended December 31, 2006**



**ARENAC COUNTY ROAD COMMISSION**  
(A Component Unit of Arenac County)

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

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## **INDEPENDENT AUDITORS' REPORT**

April 27, 2007

Members of the Board of County  
Road Commissioners  
County of Arenac, Michigan  
Omer, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Arenac County Road Commission**, a component unit of Arenac County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Arenac County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Arenac County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required

supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Arenac County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Arenac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### **Overview of the Financial Statements**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Arenac County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

### **Government-wide Statements**

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Arenac County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Arenac County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission’s financial statements. The notes to the financial statements can be found on pages 16 through 25 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

### **Government-wide Financial Analysis**

The Road Commission’s net assets increased approximately 11% or \$627,845, from \$5,510,803 to \$6,138,648 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

#### **Arenac County Road Commission Net Assets:**

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 1,234,387	\$ 1,365,384
Capital assets	<u>5,362,356</u>	<u>4,670,380</u>
Total assets	<u>6,596,743</u>	<u>6,035,764</u>
Current and other liabilities	411,805	482,148
Long-term liabilities outstanding	<u>46,290</u>	<u>42,812</u>
Total liabilities	<u>458,095</u>	<u>524,960</u>
Net assets;		
Invested in capital assets,		
net of related debt	5,362,356	4,670,380
Unrestricted	<u>776,292</u>	<u>840,424</u>
Total net assets	<u>\$ 6,138,648</u>	<u>\$ 5,510,804</u>

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Arenac County Road Commission, assets exceeded liabilities by \$6,138,648 at the close of the most recent fiscal year.

The largest portion of the Arenac County Road Commission’s net assets reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment).



## Governmental Activities

A summary of changes in net assets for the years ended December 31, 2006 and 2005, follows:

	<u>December 31</u> <u>2006</u>	<u>December 31</u> <u>2005</u>
Program revenue		
Charges for services	\$ 1,195,330	\$ 1,214,022
Operating grants and contributions		
State transportation funds	2,444,030	2,473,162
Capital grants and contributions		
Federal and state sources	186,917	570,109
General revenue		
Interest and rents	16,419	5,920
Gain on equipment disposal	<u>-</u>	<u>37,665</u>
Total revenue	3,842,696	4,300,878
Expenses		
Public works	<u>3,214,851</u>	<u>2,843,414</u>
Increase (decrease) in net assets	<u>\$ 627,845</u>	<u>\$ 1,457,464</u>

Governmental activities increased the Arenac County Road Commission's net assets by \$627,845. The key elements of this increase are as follows:

- Grant and contribution revenue is expended by the Road Commission for construction and maintenance of roads. Under the full accrual method of accounting these amounts are capitalized as infrastructure additions, therefore, the revenue is not offset by capital expenses, causing a significant increase in net assets.

A summary of changes on the Operating fund is as follows:

	<b>For the year ended December 31, 2006</b>				<b>Actual for the Year Ended December 31 2005</b>
	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>	
Revenue					
Permits and licenses	\$ -	\$ -	\$ 7,713	\$ 7,713	\$ 6,700
Federal sources	139,555	162,551	186,917	24,366	509,185
State sources	2,484,804	2,465,748	2,444,030	(21,718)	2,534,086
Contributions	344,675	379,131	385,942	6,811	475,163
Charges for services	591,671	840,488	801,675	(38,813)	722,159
Interest and rentals	-	-	16,419	16,419	5,920
Other revenue	<u>31,500</u>	<u>59,764</u>	<u>-</u>	<u>(59,764)</u>	<u>47,665</u>
Total revenue	<u>3,592,205</u>	<u>3,907,682</u>	<u>3,842,696</u>	<u>(64,986)</u>	<u>4,300,878</u>
Expenditures					
Primary road maintenance	1,551,310	1,382,831	1,325,251	57,580	1,927,055
Local road maintenance	1,437,065	1,574,137	1,534,486	39,651	1,751,309
State trunkline maintenance	591,671	672,181	611,614	60,567	677,133
State trunkline non-maintenance	-	168,307	146,737	21,570	40,824
Equipment expense (net)	-	64,373	113,833	(49,460)	(65,039)
Administrative expense (net)	296,858	321,270	320,359	911	304,488
Capital outlay (net)	(159,250)	(225,000)	(170,076)	(54,924)	215,996
Other	<u>15,000</u>	<u>15,704</u>	<u>21,146</u>	<u>(5,442)</u>	<u>18,443</u>
Total expenditures	<u>3,732,654</u>	<u>3,973,803</u>	<u>3,903,350</u>	<u>70,453</u>	<u>4,870,209</u>
Net change in fund balance	(140,449)	(66,121)	(60,654)	5,467	(569,331)
Fund balances, beginning of year	<u>883,236</u>	<u>883,236</u>	<u>883,236</u>	<u>-</u>	<u>1,452,567</u>
Fund balances, end of year	<u>\$ 742,787</u>	<u>\$ 817,115</u>	<u>\$ 822,582</u>	<u>\$ 5,467</u>	<u>\$ 883,236</u>

### General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$315,477 higher than the original budget primarily due to the neighboring counties and township contributions. The actual revenue recognized during 2006 was less than the final amended budget by \$64,986.

The final amended expenditure budget for 2006 was \$241,149 greater than the original budget due to an increase in local road maintenance as a result of an increase in state, county, and township contributions and an increase for equipment expenditures. The actual expenditures recognized during 2006 were less than the final amended budget by \$70,453. There was an unfavorable variance in the equipment expense, capital outlay, and other expenditure line items.

## Capital Assets

As of December 31, 2006, the Arenac County Road Commission had invested \$5,362,356 in capital assets. This amount represents a net increase (including additions and deductions) of \$691,976 for 15% as follows:

	<b><u>Balance December 31,</u></b>		
	<b><u>2006</u></b>	<b><u>2005</u></b>	
Capital assets not being depreciated			
Land and improvements	\$ 9,200	\$ 9,200	0.00%
Construction in progress	<u>75,333</u>	<u>-</u>	100%
Subtotal	<u>84,533</u>	<u>9,200</u>	818%
Capital assets being depreciated			
Buildings	380,683	385,244	-1.00%
Equipment	3,562,925	3,552,751	0.29%
Infrastructure	<u>5,292,616</u>	<u>4,179,297</u>	26.6%
Subtotal	<u>9,236,224</u>	<u>8,117,292</u>	13.7%
Total capital assets	9,320,757	8,126,492	14.6%
Total accumulated depreciation	<u>(3,958,401)</u>	<u>(3,456,112)</u>	14.5%
Total net capital assets	<u>\$ 5,362,356</u>	<u>\$ 4,670,380</u>	14.8%

Major capital asset events during the current fiscal year included the following:

Various Resurfacing	\$ 1,113,319
Construction in progress	75,333
Equipment	<u>3,074</u>
Total Additions	<u>\$ 1,191,726</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 22.

### **Long-term debt**

At the year-end, the Arenac County Road Commission had no notes, bonds or installment purchase agreements. The balance of the Road Commission's long-term obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Road Commission's budget for the 2007 fiscal year:

- According to the Michigan Department of Transportation estimates, the transportation fund is expected to be stagnant, due mainly to increased gasoline prices resulting in decreased usage.

### **Requests for Information**

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Arenac County Road Commission, 116, Bridge Street, Omer, Michigan 48749.

## **BASIC FINANCIAL STATEMENTS**

**ARENAC COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET**  
**DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>ASSETS</b>			
Cash	\$ 351,055	\$ -	\$ 351,055
Investments	100,000	-	100,000
Accounts receivable			
Michigan transportation fund	374,899	-	374,899
State trunkline maintenance	56,749	-	56,749
Due from State equipment advance	35,448	-	35,448
Due on county road agreements	16,479	-	16,479
Sundry accounts receivable	1,480	-	1,480
Interest	615	-	615
Inventories			
Equipment material and parts	120,934	-	120,934
Road materials	102,258	-	102,258
Prepaid insurance	74,470	-	74,470
Capital assets			
Land and improvements	-	9,200	9,200
Construction in progress	-	75,333	75,333
Property and equipment - net of accumulated depreciation	-	520,072	520,072
Infrastructure - net of accumulated depreciation	-	4,757,751	4,757,751
<b>Total assets</b>	<b>\$ 1,234,387</b>	<b>5,362,356</b>	<b>6,596,743</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 138,528	-	\$ 138,528
Accrued liabilities	17,420	-	17,420
Advances			
State trunkline equipment purchase	138,218	-	138,218
State trunkline maintenance	57,135	-	57,135
Deferred/unearned revenue	60,504	-	60,504
Long-term liabilities			
Due within one year	-	1,336	1,336
Due after one year	-	44,954	44,954
<b>Total liabilities</b>	<b>411,805</b>	<b>46,290</b>	<b>458,095</b>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for prepaids	74,470	(74,470)	-
Reserved for inventory	223,192	(223,192)	-
Unreserved, undesignated	524,920	(524,920)	-
<b>Total fund balance</b>	<b>822,582</b>	<b>(822,582)</b>	<b>-</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,234,387</b>		
<b>Net Assets:</b>			
Invested in capital assets		5,362,356	5,362,356
Unrestricted		776,292	776,292
<b>Total net assets</b>		<b>\$ 6,138,648</b>	<b>\$ 6,138,648</b>

The accompanying notes are an integral part of these financial statements.

**ARENAC COUNTY ROAD COMMISSION  
RECONCILIATION OF GENERAL FUND BALANCE SHEET  
TO STATEMENT OF NET ASSETS**

**DECEMBER 31, 2006**

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Fund balances - General Fund	\$ 822,582
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and construction in progress	84,533
Add - property and equipment	3,943,608
Add - infrastructure	5,292,616
Deduct - accumulated depreciation	(3,958,401)

Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(46,290)</u>
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Net assets of governmental activities	<u><u>\$ 6,138,648</u></u>
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The accompanying notes are an integral part of these financial statements.

# ARENAC COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses</b>			
Public works	\$ 2,711,624	\$ 503,227	\$ 3,214,851
Capital outlay	1,191,726	(1,191,726)	-
Total expenditures/expenses	<u>3,903,350</u>	<u>(688,499)</u>	<u>3,214,851</u>
<b>Program revenue</b>			
Charges for services	1,195,330	-	1,195,330
<b>Operating grants and contributions</b>			
State transportation funds	2,444,030	-	2,444,030
<b>Capital grants and contributions</b>			
Federal and state sources	<u>186,917</u>	<u>-</u>	<u>186,917</u>
Total program revenues	<u>3,826,277</u>	<u>-</u>	<u>3,826,277</u>
Net program revenue			611,426
<b>General revenue</b>			
Interest and rents	<u>16,419</u>	-	16,419
Total revenue	<u>3,842,696</u>		
Revenue over (under) expenditures	(60,654)	60,654	-
Changes in net assets	-	627,845	627,845
Fund balance/net assets:			
Beginning of the year	<u>883,236</u>	<u>4,627,567</u>	<u>5,510,803</u>
<b>End of the year</b>	<u><u>\$ 822,582</u></u>	<u><u>\$ 5,316,066</u></u>	<u><u>\$ 6,138,648</u></u>

The accompanying notes are an integral part of these financial statements.



**ARENAC COUNTY ROAD COMMISSION**  
**RECONCILIATION OF THE GENERAL FUND REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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Revenues over (under) expenditures - General Fund	\$ (60,654)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	3,074
Add - construction in progress purchases	75,333
Add - Infrastructure purchases	1,113,319
Deduct - depreciation expense	(499,749)

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

(3,478)

Change in net assets of governmental activities	<u><u>\$ 627,845</u></u>
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The accompanying notes are an integral part of these financial statements.

# ARENAC COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>				
<b>Permits and licenses</b>	\$ -	\$ -	\$ 7,713	\$ 7,713
<b>Federal sources</b>				
Other- Safety	139,555	162,551	186,917	24,366
<b>State sources</b>				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	2,444,552	2,455,748	2,434,030	(21,718)
Economic development funds				
Forest Road (E)	30,252	-	-	-
<b>Contributions</b>				
City and Villages	-	-	22,775	22,775
Townships	344,675	379,131	362,084	(17,047)
Other	-	-	1,083	1,083
<b>Charges for services</b>				
State trunkline maintenance	591,671	672,181	651,681	(20,500)
State trunkline non-maintenance	-	168,307	146,737	(21,570)
Salvage sales	-	-	3,257	3,257
<b>Interest and rentals</b>	-	-	16,419	16,419
<b>Other revenue</b>				
Other	31,500	59,764	-	(59,764)
<b>Total revenue</b>	<u>3,592,205</u>	<u>3,907,682</u>	<u>3,842,696</u>	<u>(64,986)</u>

# ARENAC COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Expenditures</b>				
<b>Primary Road</b>				
Heavy maintenance	\$ 835,000	\$ 734,667	\$ 722,243	\$ 12,424
Maintenance	716,310	648,164	603,008	45,156
<b>Local Road</b>				
Heavy maintenance	447,619	469,290	466,409	2,881
Maintenance	989,446	1,104,847	1,068,078	36,769
<b>Total maintenance</b>	2,988,375	2,956,968	2,859,738	97,230
<b>State trunkline maintenance</b>	591,671	672,181	611,614	60,567
<b>State trunkline non-maintenance</b>	-	168,307	146,737	21,570
<b>Equipment expense (net)</b>	-	64,373	113,832	(49,459)
<b>Administrative expense (net)</b>	296,858	321,270	320,359	911
<b>Capital outlay (net)</b>	(159,250)	(225,000)	(170,076)	(54,924)
<b>Other</b>				
Billable maintenance service	15,000	15,704	21,146	(5,442)
<b>Total expenditures</b>	3,732,654	3,973,803	3,903,350	70,453
Net change in fund balance	(140,449)	(66,121)	(60,654)	5,467
Fund balances, beginning of year	883,236	883,236	883,236	-
<b>Fund balances, end of year</b>	\$ 742,787	\$ 817,115	\$ 822,582	\$ 5,467

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Arenac County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### A. Reporting Entity

The *Arenac County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Arenac, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

### **C. Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

# **ARENAC COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **D. Assets, Liabilities, and Net Assets or Equity**

#### **1. Deposits**

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

#### **2. Inventory**

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

#### **3. Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2005

# **ARENAC COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended December 31, 2004.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

#### **4. State Trunkline Adjustments**

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2006, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

#### **5. Compensated Absences**

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

**ARENAC COUNTY ROAD COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Data**

The Road Commission's procedures for establishing budgetary data are as follows:

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.



**ARENAC COUNTY ROAD COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

At year-end, the carrying amounts and bank balance of the Authority's deposits were as follows:

	<b><u>Carrying Amount</u></b>
Government-wide Financial Statement Captions:	
Cash	\$ 351,055
Investments	<u>100,000</u>
Total	<u><u>\$ 451,055</u></u>
Deposits:	
Cash on hand	\$ 300
Other demand accounts	43,860
Cash on deposit with Arenac County	306,895
Certificate of deposit with Arenac County	<u>100,000</u>
	<u><u>\$ 451,055</u></u>

This entire balance is considered to be deposits for disclosure purposes.

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

*Interest Rate Risk.* The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Commission had no investments and was therefore, not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, The Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. At year-end, \$439,686 of the Commission's bank balance of \$539,686 was exposed to custodial credit risk because it was uninsured and uncollateralized. FDIC coverage cannot be determined for deposits with the County.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Commission had no investments and therefore, did not have any concentrations of credit risk.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### **B. Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2006</u>
Capital assets not being depreciated				
Land and improvements	\$ 9,200	\$ -	\$ -	\$ 9,200
Construction in progress	<u>-</u>	<u>75,333</u>	<u>-</u>	<u>75,333</u>
Total capital assets not being depreciated	<u>9,200</u>	<u>75,333</u>	<u>-</u>	<u>84,533</u>
Capital assets being depreciated				
Buildings	385,244	-	(4,561)	380,683
Road equipment	3,167,664	1,725	-	3,169,389
Shop equipment	108,462	1,349	-	109,811
Engineer's equipment	43,447	-	-	43,447
Yard and storage equipment	137,103	-	-	137,103
Office equipment	103,175	-	-	103,175
Infrastructure – roads	3,655,127	1,107,120	-	4,762,247
Infrastructure – bridges	<u>524,170</u>	<u>6,199</u>	<u>-</u>	<u>530,369</u>
Total capital assets being depreciated	<u>8,124,392</u>	<u>1,116,393</u>	<u>(4,561)</u>	<u>9,236,224</u>
Less accumulated depreciation				
Buildings	(332,419)	(11,908)	4,561	(339,766)
Road equipment	(2,437,881)	(147,236)	-	(2,585,117)
Shop equipment	(97,111)	(1,688)	-	(98,799)
Engineers equipment	(38,250)	(1,507)	-	(39,757)
Yard and storage equipment	(123,531)	(5,978)	-	(129,509)
Office equipment	(71,594)	(4,121)	-	(75,715)
Infrastructure – roads	(336,006)	(313,695)	-	(649,701)
Infrastructure – bridges	<u>(26,421)</u>	<u>(13,616)</u>	<u>-</u>	<u>(40,037)</u>
Total accumulated depreciation	<u>(3,463,213)</u>	<u>(499,749)</u>	<u>4,561</u>	<u>(3,958,401)</u>
Net capital assets being depreciated	<u>4,661,179</u>	<u>616,644</u>	<u>-</u>	<u>5,277,823</u>
Total net capital assets	<u>\$ 4,670,379</u>	<u>\$ 691,977</u>	<u>\$ -</u>	<u>\$ 5,362,356</u>

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

The net book value of the assets disposed of during the year is accounted for as a component of net capital outlay expenditures. The amount reported as gain on equipment disposals represents proceeds from insurance recoveries.

### C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Balance January 1, 2006</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 42,812</u>	<u>\$ 7,759</u>	<u>\$ (4,281)</u>	<u>\$ 46,290</u>	<u>\$ 1,336</u>

## IV. OTHER INFORMATION

### A. Defined Benefit Pension Plan

#### **Pension Plan**

The Road Commission's defined benefit pension plan provides retirement, disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

#### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current rates as a percentage of annual covered payroll are 17.92% for the General unit, 20.58% for the Administrative unit, 34.57% for the Engineer / Manager unit and 6.89% for the Office Manager / Clerk unit. The administration unit of Road Commission employees is required to contribute 1% of their gross income to the plan. All other Road Commission employees are not required to contribute to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission in accordance with negotiated labor agreements.

### Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$183,012 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2004	\$ 179,624	100%	\$ -
12/31/2005	193,658	100	-
12/31/2006	183,012	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2003	\$ 2,525,987	\$ 4,626,398	\$ 2,100,411	55%	\$ 941,888	223%
12/31/2004	2,582,806	4,895,630	2,312,824	53	988,386	234
12/31/2005	2,657,215	4,995,506	2,338,291	53	954,404	245

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **B. Postemployment health benefits**

In addition to the pension benefits described in Note IVA, the Road Commission provides post-retirement health care benefits, in accordance with State statutes, to employees retiring after February 9, 1994. The Road Commission pays the cost of the single subscriber portion of the health insurance monthly premium until retirees qualify for Medicare, provided that the employees retire from all active employment commensurate with their retirement from the Commission, the retiree is eligible to receive a pension benefit under the Road Commission's pension plan, the retiree must have had at least ten continuous years of service with the Road Commission at the time of retirement, and finally the employee must be at least 60 years of age at the time of retirement. Such retirees may, at their own expense, include their dependents under coverage of the Road Commission's group health plan by paying the monthly premium cost for such dependent coverage. Currently, 3 retirees meet those eligibility requirements. During the year ended December 31, 2006, expenditures of \$12,452 were recognized for post-retirement health care.

The Governmental Accounting Standards Board has recently released Statement No. 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statement to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statement for future reporting periods.

### **C. Self-Insurance Pool**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **D. Contingencies**

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

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## **OPERATING FUND SCHEDULES**



# ARENAC COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
Permits and licenses	\$ -	\$ -	\$ 7,713	\$ 7,713
Federal sources				
Other Safety	186,917	-	-	186,917
State sources				
Michigan transportation funds				
Engineering	6,300	3,700	-	10,000
Allocation	1,537,033	896,997	-	2,434,030
Contributions from local units				
City and Village	-	-	22,775	22,775
Townships	-	362,084	-	362,084
Other governments	-	-	1,083	1,083
Charges for services				
State trunkline maintenance	-	-	651,681	651,681
State trunkline non-maintenance	-	-	146,737	146,737
Salvage sales	-	-	3,257	3,257
Interest and rentals	9,691	4,853	1,875	16,419
<b>Total revenues</b>	<u>\$ 1,739,941</u>	<u>\$ 1,267,634</u>	<u>\$ 835,121</u>	<u>\$ 3,842,696</u>

# ARENAC COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Heavy maintenance				
Roads	\$ 373,729	\$ 460,210	\$ -	\$ 833,939
Structures	27,333	6,199	-	33,532
Safety Projects	321,181	-	-	321,181
Maintenance				
Roads	461,137	927,829	-	1,388,966
Structures	5,365	7,807	-	13,172
Winter maintenance	118,055	112,782	-	230,837
Traffic control	18,451	19,660	-	38,111
Total maintenance and construction	1,325,251	1,534,487	-	2,859,738
State trunkline maintenance	-	-	611,614	611,614
State trunkline non-maintenance	-	-	146,737	146,737
Equipment expense (net)	23,108	63,223	27,501	113,832
Administrative expense (net)	148,459	171,900	-	320,359
Capital outlay (net)	-	-	(170,076)	(170,076)
Other				
Billable maintenance service	-	-	21,146	21,146
<b>Total expenditures</b>	<u>\$ 1,496,818</u>	<u>\$ 1,769,610</u>	<u>\$ 636,922</u>	<u>\$ 3,903,350</u>

# ARENAC COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 1,739,941	\$ 1,267,634	\$ 835,121	\$ 3,842,696
Total expenditures	<u>1,496,818</u>	<u>1,769,610</u>	<u>636,922</u>	<u>3,903,350</u>
<b>Revenues over (under) expenditures</b>	243,123	(501,976)	198,199	(60,654)
<b>Other financing sources (uses)</b>				
Intrafund transfers	<u>(459,783)</u>	<u>459,783</u>	<u>-</u>	<u>-</u>
<b>Revenues and other sources over (under) expenditures and other (uses)</b>	(216,660)	(42,193)	198,199	(60,654)
<b>Fund balance, beginning of year</b>	<u>521,296</u>	<u>261,052</u>	<u>100,888</u>	<u>883,236</u>
<b>Fund balance, end of year</b>	<u>\$ 304,636</u>	<u>\$ 218,859</u>	<u>\$ 299,087</u>	<u>\$ 822,582</u>



April 27, 2007

To the Board of County Road Commissioners  
Arenac County Road Commission  
Omer, Michigan

In planning and performing our audit of the financial statements of the ***Arenac County Road Commission*** for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

## **1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

Criteria:

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

<u>Condition:</u>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
<u>Cause:</u>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<u>Effect:</u>	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<u>View of Responsible Officials:</u>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Arenac County Road Commission's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of County Road Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

